



POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO

840 Boonville
Springfield, Missouri 65801
Voice Mail (417) 831-8901
Box Number 44140

Minutes November 12, 2009

1. Call to Order

Homan called the meeting to order at 8:35 a.m. Minutes taken by White.

Attendance

Members	Representation	Present	Absent
Ken Homan	Chairman	X	
Beau Barrett	Citizen	X	
David Carter	Fire	X	
Jim Edwards	Police	X	
Steve Fenner	Citizen	X	
David Hall	Fire	X	
Ron Hoffman	Retiree	X	
Evelyn Honea	Deputy City Manager		X
Sheila Maerz	Human Resources		X
Mary Mannix-Decker	Finance	X	
Jim McCulloch	Police	X	
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law	X	
Nikki White (NV)	Secretary	X	

NV = Non-voting

2. Approval Meeting Minutes – September 30, 2009 (open session)

Homan stated that the minutes from the open sessions for September 30, 2009 and October 8, 2009 required the board's approval. Homan asked for a motion to approve the open session minutes for September 30, 2009 as presented. Motion made by Hall; 2nd by McCulloch. Vote all: Yes.

The approval of the October 8, 2009 minutes was tabled until the December meeting.

3. Approval of Financial Statement Ending September 30, 2009

Homan asked Mannix-Decker to review the September financial statement.

Mannix-Decker reported on the following items of interest:

- As of September 30, 2009 there was \$11,950,100 in the cash account. This includes \$5.9 million in settlement funds.
- The last AT&T transfer will take place in November.
- Brandywine is up 1.89% for a gain of \$288,385.

- Galliard is up 1.68% for a gain of \$467,263.
- Pictet had an increase of 5.91% for a gain of \$1,903,825.
- Prudential had a decrease of \$608,303.
- State Street Global had an increase of 4.17% for a gain of \$1,203,621.
- Net Assets for the month end were \$130,491,863.
- Total contributions for September were \$7,118,170 and gain of market value was \$4,536,095 for a total of \$11,653,628 in additions.
- Retirement payments were \$1,345,024 and administrative expenses were \$8,061 for a total of \$1,353,085 in deductions.
- Net increase for the month was \$10,300,543.

Mannix-Decker added that she has asked Reina to give his opinion today on what to do with the additional \$5 million that was recently deposited in the cash account. She said approximately \$2 million would need to be retained in the cash account which will last around 6-8 months. Additional cash will be coming in from the sales tax within 8 months. McCulloch said he would anticipate there being an influx of retirement applications after the first of the year so he asked Mannix-Decker to take that into consideration because of the return of contributions. McCulloch said he knows of several that will be eligible for retirement.

Homan asked for a motion to approve the financials for September 30, 2009. Motion by Hall; 2nd by Fenner. Vote all: Yes.

4. Review of Applications

William Whitaker	Age & Service	Police	Eligible: 11/30/2009
------------------	---------------	--------	----------------------

McCulloch pointed out a typo on his application. Whittaker mistakenly put his birth year on the employment date. McCulloch double checked his employment date and it is 04/02/1984 not 04/02/1956 as indicated on his application.

Homan asked for a motion to approve the age and service retirement application for William Whitaker with the amended date of hire being 04/02/1984. Motion by McCulloch; 2nd by Edwards. Vote all: Yes.

5. Review of Retirement Calculations

Survivor's Pension Calculation

The calculation for Kenneth Roach's surviving spouse was reviewed. Hall questioned the number of years from the date eligible for a 3% increase to 01/01/1996. He was eligible for 3% COLA on 07/01/1991 therefore the number of years should be 5 versus 4 as indicated on the calculation. Mannix-Decker said she would review the calculation with Glenda Hudson and report back to the board.

Survivor's Final Pension Check

Retiree's Name	Survivor's Name	Survivor's Final Monthly Pension Amount	Last Pension Check Amount
Clifford Pickett	Mildred Pickett	\$1,695.50	\$395.64

Homan asked for a motion to approve the final surviving spouse pension payment for Clifford Pickett. Motion by Hall; 2nd by Hoffman. Vote all: Yes.

6. New Business

A. June 30, 2009 Audit Report – Larry Brown of Davis, Lynn & Moots, P.C.

Homan introduced Larry Brown to give the audit report for the year ending June 30, 2009 (on permanent file).

Brown first pointed out the auditor's opinion on pages 3-4 which states that he has audited the financial statements and everything in this report is accordance with Government Auditing Standards. The remaining of the report is organized in two sections. The first 16 pages are the section that Mannix-Decker prepares which is the management's discussion and analysis. The second half of the report is the auditor's numbers which are the same numbers, but in a different format.

Brown pointed out Table 1 on page 7. He noted that the year started with net assets of \$128,085,142 and ended with \$112,370,187 for a loss of \$15,714,955. Total employer contributions were \$23,979,519. This amount includes the settlement monies and is an increase of \$15,185,260 over 2008. Member contributions remained steady. The net investment income (loss) was \$24,955,493 compared to a loss of \$6,415,598 at year end 2008. Benefit payments were fairly consistent with the prior year for a total of \$15,076,882. Pension refunds were up \$578,908 from the prior year. In 2008 the net assets decreased by \$10.8 million compared to a decrease of \$15.7 million in 2009.

Page 12 shows the breakdown of assets. Debt securities totaled \$28,802,055, equity securities totaled \$61,091,886 and government securities totaled \$10,752,567. Page 18 shows the total number of retirees which is 486. This is up 16 people from 2008. The total number active members are at 481 which is down 24. The rest of the report is actuarial information and discloses that all of the actuarial methods are proper methods.

Hall asked if the plan was within its percentages. Brown directed the board to page 17 to look at the percentage breakdown. He said everything was within the percentages set by ordinance. Brown also mentioned the letter that was included at the end of the report. The letter explains that there were no disagreements with management and there were no items that were argued over in which a second opinion from another CPA was needed. He appreciated the cooperation from staff during the audit process.

Homan asked if Brown had any opinions on the amortization methods. Brown said the methods that are being utilized are in accordance with the Governmental Accounting Standards Board's guidelines. He can't tell the board whether the methods used are the best to utilize. He can only state whether the methods are acceptable. Homan asked if Brown had an opinion as to whether the change in the AFC was appropriate. Brown stated that everything was within the guidelines and is acceptable.

Hall asked Brown if there is anything that he thinks the board needs to be looking at or thinking about. Brown said the last couple of years have been difficult years. With the market on the increase he thinks the board can gain as much next year in market value as it can with the sales tax. He said it is good that the funds that are invested haven't been needed for cash flow. It's good that the money hasn't been pulled out when the market is down so that the upside isn't missed. McCulloch said he feels this board has been good about looking at the long haul and we are up \$18 million from 2-3 months ago.

Homan asked for a motion to approve the June 30, 2009 audit report as presented by Davis, Lynn & Moots, P.C. Motion by Hall; 2nd by Hoffman. Vote all: Yes.

B. Pension Board Nominations

Homan stated that the Pension Board election would take place December 7-11, 2009. One nomination from police and one nomination from fire have been received. Homan asked if there was a requirement to have more than one nomination from each. Hall said no, but the election still has to take place because write-ins are accepted. Brady Stark is the police nominee and Chris Thompson is the fire nominee.

Homan said he is not sure where the City Council subcommittee is on the process of reconfiguring the board. Rushefsky stated that a meeting is schedule for Monday, November 16. It is her understanding that the City Manager and the Mayor have met with IAFF and SPOA and they have worked out an understanding of how the police and fire representatives will be configured. She understands that it may be one voting member and one non-voting member from each group. If one person is absent the other can step in and vote. The retiree would remain a voting member.

Hall said there was talk about meeting with the Pension Board to get the board's opinion. He asked Rushefsky if they were still planning on doing that. She said it was her understanding that they were going to meet with the board before a final decision is made, but nobody is here today and their meeting is scheduled for Monday. Homan said that without any finality of that process the board will continue with the normal election procedure.

Homan asked for a motion to accept Brady Stark as the police nominee and Chris Thompson as the fire nominee for the Police and Fire Pension Board Election to be held December 7-11, 2009. Motion by Hall; 2nd by Edwards. Vote all: Yes.

The board agreed to move the December Pension Board meeting to December 17, 2009 so that the election results can be determined at that time.

C. Nurse Consultant

Homan stated that the board has received notice from the nurse consultant that she has been laid off from HSI. He asked Wichmer to review the contract to determine what the board is obligated to do. He added that the board will have a need for a nurse consultant in the very near future for the disability re-examinations.

Homan asked for a motion to move to closed session at 9:15 a.m. to discuss legal matters. Motion by Hall. 2nd by Hoffman. Vote all: Yes.

Open session resumed at 10:30 a.m. Carter entered during the closed session and attended the remainder of the open session.

7. Old Business

A. Income Verification

Mannix-Decker reported that she has turned over to the Law Department a list of names of those who haven't responded or didn't provide complete information.

8. New Business Continued

D. Segal Quarterly Investment Report – Gino Reina

Reina distributed copies of the Analysis of Investment Performance through September 30, 2009 (copy on permanent file).

Reina stated that this is the first time in four quarters that we actually have positive Gross Domestic Product growth. GDP increased 3.5 percent for the third quarter of 2009. Two-thirds was related to the government. The main drivers were Cash for Clunkers and the \$8,000 tax credit. In history when there have been four negative quarters, the rebound in GDP is typically much larger because you're coming off of a much lower base. You would typically see something in the positive 6-8 percent range. All we saw was 3.5 percent so it shows the magnitude of what happened over the last year. Coming out of this we aren't going to see the quick bounce back like we have seen historically within a month over the last 80-90 years. It's going to be slow and methodical, but the 3.5 percent is a start.

Consumer Price Index – Inflation hasn't been a concern and that continues to be the case. The only area within inflation that has seen a significant rise in price is energy. Gasoline, fuel oil and commodity prices resulted in a 4.8 percent increase in the energy CPI from Q2 2009 to Q3 2009. Inflation will probably not be a concern for a least the next two years.

Fenner asked Reina if he sees this economic downturn as being fundamentally different from others in the past 20-25 years. It seems to him there may be some economic issues that are going to be a little harder to resolve than they have been in the past. Reina said this time is different that 20-25 years ago, but very similar to what happened a 100 years ago. The magnitude of deleveraging is unprecedented. The large banks are not lending to anyone. The regional banks haven't been a focus. The FDIC has about 400 banks on their trouble list that will need to be bailed out in the next 2-3 years. This will cost the FDIC about \$70 billion. The regional banks haven't deleveraged yet. There are currently around 8,000 banks, but don't be surprised if in a few years there are only 4,000 due to bankruptcy and consolidation. This all still has to wash out. For individuals there are still foreclosures although a lot of that has played out. Individuals are not spending a lot right now and this may remain permanent. Homan added that the FDIC is putting so much pressure and requirements on small local banks that they can't lend money. Reina added that irresponsible lending is what got us into this mess.

Reina stated that businesses have cut expenses to the point they can't cut any more. They have also been keeping low inventories. The inventories/sales ratio has gotten to a level that they will have to begin restocking again. They will have to produce more to meet the sales demand going forward which is positive for GDP and the economy. The U.S. dollar has been fairly weak lately. For the first time ever the central banks around the world have increased reserves by approximately \$100 billion.

Less than 30 percent of those increases are U.S. dollars. So the rest of the world is saying they can't just have a portfolio of U.S. treasuries. They are diversifying to Euros and Yen. The Chinese are stockpiling commodities for the future.

Since March, the market is up over 56 percent. Reina explained that there are three measures that are out of whack. The first is Price to Earnings which is up 26.6x. Compared to averages this is significantly higher than the long term. Price to Free Cash Flow is up 34.5x which is basically twice the long term average. Earnings Yield at 3.8 percent is much lower than the long term averages. From a valuation perspective these are some things to think about as it relates to the stock market being overvalued or fairly valued. Reina said it's definitely not undervalued.

From 1995 to 2008 emerging countries went from 39 percent to 48 percent which is nearly ½ of all global GDP. China's share of global GDP has increased from 5.7 percent to 11.4 percent. They more than doubled in a 13 year period. China, India, Brazil and Russia are the top emerging markets. Japan got hit the hardest. In the late 80's and early 90's everyone thought Japan was the model for corporate America, but not so much anymore. Their interest rate has been around zero for 20 years. Fenner asked if there is any legitimacy that we are heading down the same path that Japan went down 20 years ago. Reina said there are some striking similarities.

As of June 30, 2009 the pension assets were valued at \$102,585,909 compared to \$118,505,046 on September 30, 2009. This about a \$15.5 million increase for the three month period of which approximately \$4 million was in contributions and \$11.5 million in investment earnings. Reina said the first recommendation he is going to make will relate to the rebalancing strategy. This discussion was started back in January and was revisited in May and implemented in July. We started to slowly add back into equities with State Street and Pictet. Although all the money hasn't been invested yet, we are actually pretty close to the target now in equity. When the board first started rebalancing the portfolio, the S&P was at 932 and now it's at 1100. So the rebalancing definitely worked out. His first recommendation is to stop allocating back into equities because if we continue we will be overweight in equities. The international equity allocation is at 19.6 percent and the target is 20 percent. The equity segment is at 37.46 percent and the target is 40 percent. Hall mentioned that we needed to be thinking about where to put the additional \$5.9 million in settlement funds as well as the sales tax money that will start coming in next summer on a monthly basis. Mannix-Decker said she was getting ready to transfer the last funds associated with the rebalancing strategy and asked if Reina was recommending that she stop and not make the final investment. Reina said yes.

Summary of the performance of the plan – For the 1st quarter of the fiscal year the plan is up 11.49 percent. For the first 9 months of the calendar year the plan is up 15.15 percent. The drivers are International Equities, Galliard and International Fixed Income. Hall stated that since inception our equity segment has slightly beat the index, but the international equity, bond segment, international fixed income and real estate have all not performed well. He asked why we aren't indexing everything and why are we paying Segal, to be more specific. Reina stated that this was a valid question. He said Galliard has outperformed since they were hired. He said as far as the other managers, Hall is correct. Pictet had a tough 2008, but has made up for it in 2009. Reina said the international fixed income can't be indexed. He said they are having discussions internally that they would recommend in January or February that if you do have an alternative asset class allocation that you index it. If you're going take your active bets and put it within alternative assets, you don't need to take active bets on public securities. It's all about the risk budget and where you want to take your risks. If you don't have alternative assets and you index everything then you lose that potential at all. You're just going to get what ever the index gives you which may be enough. He said to Hall's point, it's definitely

being discussed and they are very close to coming to a point where they are thinking yes if we are doing alternative assets then all public securities should be indexed. Homan asked if they should be indexed with public commercial indexes. Reina said yes. With the equity and international equity could be combined into All Country World Index.

Alternative Asset Class Overview (presentation on permanent file)

The alternative assets have not come back either at all or very little because of liquidity or the access to liquidity. Alternative assets are a broad term for an asset class that encompasses a wide variety of less liquid and/or less efficient investment opportunities. For the most part they are all private in nature and leveraging is a component to varying degrees. Some alternative asset classes include hedge funds, infrastructure, private equity and real estate.

Hedge Funds – unregulated investment pools that may invest in any asset class. Some tools and techniques used by hedge funds include short selling, leverage, arbitrage and derivatives. Traditional investments have specific mandates, market-based strategies, returns and risk measured relative to a benchmark, and asset-based compensation. Hedge funds are the exact opposite. The mandate is not specific, they are based purely on skill, the returns and risk are measured in absolute terms, and they are asset-based and performance-based. They operate on 2 percent asset based fee and 20 percent performance based fee. There are currently a lot less hedge funds. Banks don't want to provide the leverage anymore. Hedge funds are very illiquid. You can't just get your money out whenever you want. Many hedge funds managers are not experienced in back office operations and issues can arise in key areas such as the valuation of securities. Additionally many hedge fund "blow ups" have been due to fraud committed by the principals. Reina said this is the alternative asset class they like the least. It's too broad in nature.

Infrastructure – Reina said this is an area his firm has been familiar with for about five years. Infrastructure has been a focus with the current administration more recently. There is no doubt that infrastructure around the world as well as the U.S. is needed and necessary. The U.S. is actually behind the curve as it relates to infrastructure whether it is roads, bridges, energy, etc. There are levels; regulated, contracted and social. Regulated is electricity, water and gas distribution. Contracted is district energy, power generation and communication towers. Social is hospitals, aged care, schools, courthouses and prisons. Internationally, private investment in infrastructure has been common for 20 years. The scrutiny in the U.S. is would the private owner of a bridge do what is in the best interest of the public? Infrastructure is now being considered more in order to close the gaps on the debt. Characteristics of infrastructure assets include life-long assets, lower risk of capital loss, inflation-linked returns, long duration, and stable with long term visibility of cash flows.

Australia, UK and Ireland have a well-established legal regime for private ownership of infrastructure. The risks associated with infrastructure investments depend on the property rights of that country. They are highly regulated investments which mean the stability of the cash flows is related to the stability of the regulation. Just like any investment there are varying levels of risk. There is more risk in a developing project versus buying an existing property. Reina said infrastructure is all about liquidity. If you're going to buy a toll road or a power plant, you can't sell it tomorrow. You're in it for the long haul. The structure is like private equity funds and has a 10-15 year life. Stable cash flows provide good credit for leverage. There is project risk with the raw materials and overall construction. There is also political risk. High public risk invites close scrutiny.

Reina stated that these are private equity fund type of structures so you wouldn't expect to get your money out for about 15 years. They are signing 99 year leases. The exit strategy is they either sell to another investor, they take the fund and make it a public security or they make the closed end fund an open end fund. So then it's kind of like a PRISA fund. Hall said he's thinking of it in the context of our plan itself. We effectively closed the plan so were going to have people paying into it for approximately 20 more years and then we won't have contributions coming in so we'll have to live off our earnings. Eventually it will get to the point where we have to start eroding into our asset base. He just doesn't want to see us get into something where things are locked up and we have no liquidity and yet we are going to need to be selling. Hall added that it's going to happen even though it's down the road. Reina said that with this investment it will range anywhere from 5-15 years which fits into the 20 years Hall is referring to. If contributions would end in 10 years we probably wouldn't be talking about this. The allocations to these areas would probably be 2-3 percent infrastructure, 2-3 percent private equity and 2-3 percent opportunistic real estate. Reina added that the reason he's bringing this up today is because they believe the opportunities within these asset classes have return potentials between 15-20 percent a year. In 2006 these areas were 10-12 percent. There are private equity debt investors that are saying they will give cash for a 5-7 year period at a yield of 15-20 percent. If anything goes wrong as a debt holder you get the company. Since the banks aren't there somebody has to step in and buy the liquidity. That's why these opportunities are available. Reina prefers a direct route of investing in infrastructure. They have identified 5-10 quality managers that have a long history in infrastructure. There are a number of new players, but they only deal with the ones who have been doing it for 20 years. This is closed end and the lock up is 10-15 years. Once you make the commitment you can't get out until they give you the money back. The income level is about 8 percent and the leverage aspect brings it up to about 12 percent. There is also a little appreciation of 2-3 percent. Reina added that he would do a U.S. focused fund versus global.

Fenner exited at 11:40 a.m. and did not return.

Private Equity – investments in companies that are not public. The reason this area is attractive is because there is a lack of liquidity in the market. The most commonly known category is venture capital which is investing in companies in the early stages of their growth. The second is buyout often referred to as corporate finance. This is buying mature companies that generate already positive cash flows and you're borrowing money to buy these companies. They are typically used to take a publicly-traded company private. The third category is special situations/other. This goes into distressed debt where you seek to profit through the bankruptcy and/or reorganization process. Private Equity is illiquid. There is limited to no ability to terminate manager or withdraw investment during fund life. The J-Curve Effect is where you lose money in the first four years and after that you can expect to get your money back.

Hall asked how the mechanics of this works? Reina said if you're going to play the equity side of private equity then they would prefer a fund to fund structure. One manager oversees the process and they find 25-30 private equity funds that will then find direct investments. Since you're making equity stakes it is higher risk so you want diversification. If you're going to play the debt side they would prefer a direct distress debt fund. The distress debt manager has the ability to create a more diversified portfolio. Most private equity funds direct will make 10 investments where a distress debt fund will make 30-50 investments. Hall asked if the debt side would be more similar to what we are doing with our real estate. Reina said the real estate is actually equity. The characteristics of the investment are debt-like, but you're buying the actual properties. On the private equity side the equity manager is making equity investments. The debt person would be similar to the borrower's providing a building and you finance it. Hall said so on the private equity side if you're doing the debt where you're

investing in someone who then is using the money to direct invest in the properties, it sounds very similar to what we are doing with PRISA. Reina said a debt individual is going to the individual companies and offering them debt. So they are not actually taking control of the company. On the PRISA side they are going in to buy the building to own the equity in the building. That's where the difference is. Hall said what he's talking about is the structure of how will the funds get allocated. We're not buying fund to funds. Reina said that structure is correct. Hall said that is what he was meaning when he said this is more like what we are doing with the real estate side. Reina added that the return potential on the debt side is 15-20 percent on the equity side it's around 25%.

Reina said all of this brings us back to the discussion of what to do with the income funds. Segal's recommendation is to 1) bring down the public equity allocation. The equity allocation is the most aggressive part of the portfolio. The risk associated with public securities is high. The private equity infrastructure investments and even opportunistic real estate is higher, but the return potential is so much greater. It's the risk/reward relationship and they are recommending taking the risky portion of the portfolio and putting it in another risky area that has great potential over the next 10-15 years. In addition, 2) move 10-15 percent from public equity to fixed income. If we think we can get 9 percent of public equities, but now a portion of the portfolio is going to give us 15-20 percent we can be much more conservative with the rest of the portfolio which means adding more to fixed income. So from a liquidity standpoint by having a larger fixed income allocation, that's your buffer. You can take the risks where the opportunity really is. He added that he's coming with these recommendations because for two years they have been waiting for the opportunity. He's not saying put 50 percent of the assets there. His other recommendation is to not do hedge funds.

Hall asked about commodities. Reina said we are not ready to talk about them, but commodities will be the next step. Two to three years down the road inflation could be a problem. So the question is what assets you have to protect you against inflation. If you have infrastructure it will play very well. The equity manager should do well in an inflation environment. The commodity discussion is related to inflation, but there are a number of things you can invest in to get the inflation hedge. Commodities as a return producing asset class are actually not there. He said they would have something more firm on commodities early next year. They have to be in place before inflation comes. Hall said that is his concern. Reina added that commodities are a big part of it, but infrastructure is also big. It's not just about commodities.

Hall said we have a cap of 15 percent on alternative investments and 7.5 percent of that is in real estate. He asked Reina if this makes sense. Reina said on the real estate side, the more aggressive parts value add opportunistic. PRISA hasn't performed well, but there are a lot worse situations.

Hall asked what our objective here is. Are we trying to increase our returns and why? How do we quantify the risk we are taking in order to get that return? The key for him is that we need to be hitting our assumed rate of return. At the same time is it realistic for us to be saying let's try and get a 9.5 percent return on our portfolio and do we think that is a good idea? Reina said the return target hasn't changed and the risk target hasn't changed. What has really changed is where we want to take the risk to get that return. Right now the risk is within stocks and to a degree the bonds. Within the stocks you have the risk of trying to achieve a 9.5 percent return. That's not guaranteed and just like the last 10 years it didn't work out. He's recommending to take the 9.5 in stocks and move it to a 15 within this asset class and take some of that 9 and move it to the bond side that has a return of 5. So we want to take the same risk and get the same return, but move the risk budget around. He saying bring the 40 percent in stocks down to 20 percent. Take 10 percent to the alternative asset class and take the extra 10 and move it to more conservative bonds. He added that if the alternative market doesn't do well

then the stock market isn't doing well. Rushefsky said but then there's a chance we'd lose more than if we had stayed where we were. Reina said that's definitely a potential.

Hoffman said he's concerned about the perception that now we have more money in the fund and now we are taking even greater risk. Council and the public think the board has been taking too many risks already. He agrees that there is money to be made, but he has a hard time getting his hands around taking more risk at this time. Reina said if you look at the asset allocation the U.S. stocks are 40 percent, international stocks are 20 percent and real estate is 7.5 percent. Most likely that 67.5 percent will come down to 50 percent. The question is what you comprise of that 50 percent. You could say let's put the risk part in stocks like we do right now or you could say we can change the composition of the 50. He's not saying take the 67.5 percent and make it more risky. He's saying take the 67.5 percent and bring it down to 50 percent and have more bonds. Homan said the least efficient use of the risk units in his opinion is on the bond side. So if we go this direction he would like to see us go with short term high grade bonds. Reina said he would be fine with that and it makes sense. Homan added that the real issue he has with everything is the same issue he had with private equity nine months ago and that's that it is such an unknown. He hates investing in things that he doesn't understand. So we have to go through an education process to understand this and he's not sure how long that would take. Reina said he could have spent three hours on the presentation. He would like to have a special day where he would invite three managers who do this meet with the board and give the presentation from their prospective. He said they would have 15-20 years of experience.

Hall said he doesn't philosophically have an issue with it, but he keeps tying it back to what is going on within the plan itself. Hall mentioned liability driven investments and how this would fit in with what Reina is recommending. It almost sounds in some ways you're moving more toward fixed income and more predictable cash flows. He's just looking at long term. He doesn't want to make a decision very quickly on something that in a year from now we are going to regret. He also understands the urgency and the window closes at some point. Reina said it's more important to understand what you're getting into. The opportunity is never as quick as people say. With the economy the way it is everything is slow. You have a set return assumption and that doesn't change. What we are coming up with is a dynamic asset allocation which is related specifically to your funded ratio. The model is showing that when you're underfunded you take more risk. When it approaches 100 percent you move to bonds and take less risk.

Barrett said when the sales tax was passed the public bought into the thought that no matter what the reasons were or anything else, this sales tax is effectively getting us back funded. The public and Council are not looking at the fund to make up that difference. If it does that's great, but they are not looking for us to. Is the idea behind our investment returns to hit that stated percentage that we are supposed to be funding? He asked Reina to tell him what the most conservative, least risky allocation model is even if it's not flashy in the indexes. He wants to know the least expensive, most conservative approach that Reina thinks will hit our funding percentages and then contrast that with whatever mix of this current recommendation. That will give us a basis to say why do anything different than that basic conservative model. Our goal is not like a foundation or some other type of investor that however much we can make let's go make it and as long as it's a reasonable rate of risk we're going to take it. Our goal is to hit that percentage that we are supposed to hit in order to fund the liabilities. Edwards added that we have to balance that with if we can make a lot of this up in the market, why do we want to keep sticking the tax payer with a $\frac{3}{4}$ cent tax. Barrett said that is true, but he doesn't want to have a conversation in 5 years that we went down this road and it tanked and then you're asking for more money.

Reina said right now we are still very underfunded. According to the models you're supposed to take on more risk to achieve the return. As we get the cash flows that will bring you more funded and as it approaches 100 percent, you need to go more conservative with bonds. As we get the money it's most likely going to go into bonds. The risk of being under 100 percent is much greater to you and the board than the risk of trying outsized returns. Reina asked, is there really an intention that the $\frac{3}{4}$ cent itself will bring you back to 100 percent funded? Homan said no. Everything leading up to this was that we would continue to maintain our investment target which is now 7.5 percent which means taking a certain amount of risk. Barrett said he would say yes it is the intent because the assumptions were if it earns what it is supposed to, not more and not less, then the tax is there to get rid of the unfunded liability. So all the fund is supposed to do is earn it's 7.5 percent. Homan said but you don't get 7.5 percent without taking a pretty good level of risk. Barrett said he's aware of that, but you may be able to get there with an unflashy, not costly indexed approach. His question is should we look at that versus a scenario like this. He's not saying he's advocating that. He's just saying he wants to be shown both sides and why he should do one versus the other. Homan said that we should certainly go with the least amount of risk to hit the 7.5 percent. Reina said he believes the least risky way to get there is to have more conservative investments with a small piece that is more aggressive as opposed to having more regular equities, a higher allocation and having less bonds. Reina asked if the tax would stop when the fund reaches 100 percent no matter how it got to the 100 percent. Several answered yes. Hoffman said there is another part to consider. If we go too conservative we will face criticism. The tax will have to be voted on again in five years. He asked if we have to take the additional risk to achieve the 7.5 percent that we know we have to have. Are we trying to exceed the 7.5 percent or are we needing to do this to get to 7.5 percent?

Reina said it's a very interesting dynamic. If you put together a portfolio with a 7.5 percent return long term and over a short period of time it doesn't do well you will be criticized because the tax will have to continue for a longer period of time. If you're aggressive and you get there sooner then everyone thought, then the sales tax shuts off and you lose the additional contributions into the plan. Several said that is correct. Carter said the vote will come up again in 5 years and as small as a percentage of the portfolio Reina is talking about, look how scrutinized the real estate was. In five years the tax payer will look at this closely and say what has the board done for us. Carter added that the term that Reina said that scared him the most was the J-Curve. We don't want to lose money the first four years. Reina said under the current assumptions if we achieve 7.5 percent a year exactly and we get the cash flow from the sales tax, when is this plan expected to be 100 percent funded? Hall said 10 years, but in five years the sales tax will have to go to vote before it will continue. Reina asked if the board could get criticized for being too conservative. Hall said yes, we have before. Rushefsky added that even if we get to 7.5 percent, but we are not 100 percent funded the argument will be if you had made the right investments and taken a little more risk we wouldn't have to renew the tax. Hoffman said that the board has to be really educated on its decisions so that we all can go to any group and explain exactly why we made the choice we made and why it was the right thing to do.

Hall said he understands what Reina is trying to do he would just like to work all that through. The short term issue we have to decide on is what to do with is the money that is getting ready to go into equities. The board needs to decide today if we continue with that or do we put it somewhere else. Reina suggested staying conservative and put the remaining settlement cash into Galliard. Mannix-Decker said there was approximately \$8 million in settlement funds. She said probably \$1 million in cash will be needed to get through December. The board discussed phasing the funds in over a six month period, but decided one transfer would be sufficient. Reina agreed.

Hall made a motion to transfer \$6 million of the remaining settlement cash into Galliard and leave the remaining in cash; 2nd by Barrett. Vote All: Yes.

Homan stated that he would recommend the investment subcommittee be the group to lead the board through the learning curve on infrastructure and the alternative classes.

Homan exited the meeting at 12:30 p.m. and did not return.

Hall distributed a handout explaining the migration of Tier II to LAGERS (on file). He said it is basically an action plan of what has to get done by the City before this can happen. He asked the board to review it and provide comments at the next board meeting. He also distributed the Council ordinance that relates to this.

10. Adjournment

Hall made a motion to adjourn the meeting; 2nd by Edwards. Vote all: Yes. The meeting was adjourned at 12:35 p.m. on November 12, 2009.